



COUNTY OF EL PASO
OFFICE OF THE COUNTY AUDITOR

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10-20

October 24, 2019

The Honorable Linda Chew
Local District Court Administrative Judge
327th Judicial District
500 East San Antonio Street
El Paso, Texas 79901

Dear Judge Chew:

The County Auditor's Internal Audit division performed an audit of County Investments for October 2015 through March 2019 to determine if internal controls are adequate to ensure proper preparation of investment reports and statutory compliance. Policies, procedures, and regulations were also reviewed to ensure processes are documented, operating, and efficient.

This audit has been a work in progress and impacted by numerous challenges such as the MUNIS implementation, special investigations, and the shift of duties between divisions in addressing departmental needs with major emphasis on meeting statutory required audits. The audit report is attached. There were two findings noted as a result of the audit procedures; one was a repeat finding. We wish to thank the management and staff of Cash Management Audit (Treasury) and Financial Analysis/Reporting Audit divisions for their assistance and courtesies extended during this audit.

Because of certain statutory duties required of the County Auditor, this office is not independent in regard to the subject of this audit, as defined by AICPA professional standards. However, our audit was performed with objectivity and due professional care.

Respectfully,

Edward A. Dion
County Auditor

EAD:RB:ya

cc: Ms. Barbara Franco, First Assistant County Auditor
Mr. Victor Perez, Financial Operations Director
Mr. James Utterback, Audit Manager Senior, Financial Analysis/Reporting Audit
Mr. Raymond Gomez, Audit Manager, Cash Management Audit (Treasury)



INVESTMENTS AUDIT

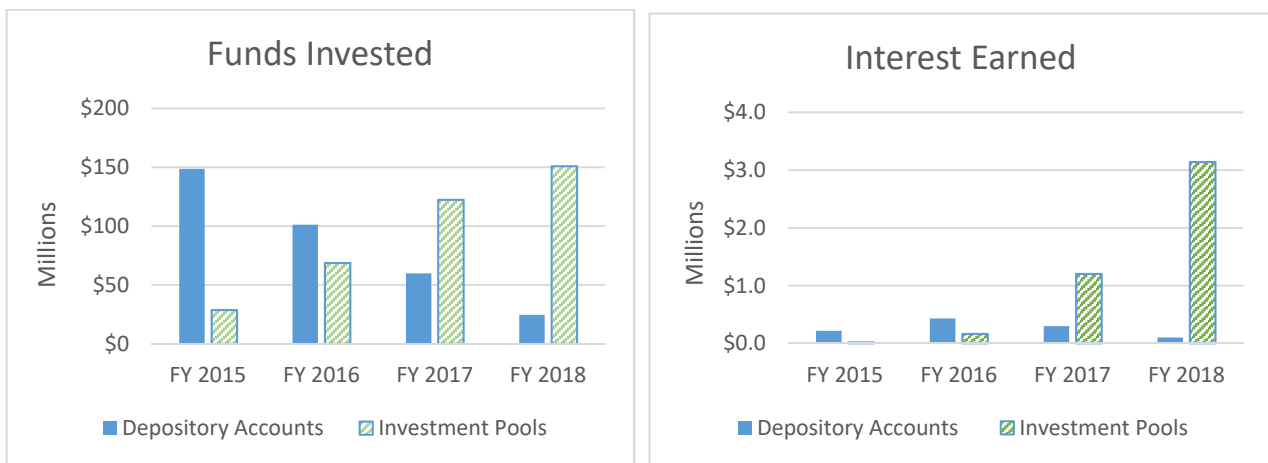
EXECUTIVE SUMMARY



BACKGROUND

The Financial Analysis/Reporting Audit division of the Auditor's Office is responsible for collaborating and assisting with the investment of idle cash for funds under the control and custody of the County Auditor in a manner maintaining the safety of principal and liquidity of the invested funds while providing a reasonable rate of return in accordance with *Texas Government Code §2256* (Public Funds Investment Act (PFIA)) and the El Paso County Investment Policy. The Cash Management Audit division reviews and updates the Cash Management Daily Cash Balances report used to analyze availability of funds. Financial Analysis/Reporting Audit division evaluates the operational cash needs by major fund and identifies investable funds or if a withdrawal from the invested funds need to be made to cover operational needs. Once approved, such funds can be invested or withdrawn. In October 2016 the MUNIS financial system was implemented. This audit was performed by Ruth Bernal, internal auditor senior. The prior audit report was issued on April 9, 2013; all issues were resolved except one.

The following chart shows the average funds invested for the past four years. The sharp increases in 2017 and 2018 were due to a more aggressive investment approach.



Source: Quarterly Investment Reports

OBJECTIVES

The audit evaluated the adequacy of controls and processes used to achieve key business objectives related to the investment of County funds. Following are the business objectives and related control assessment based on the audit work performed.

Business Objective	Control Assessment
1. Documented policies and procedures in accordance with the PFIA.	Needs Improvement
2. Compliance with education training requirements.	Satisfactory
3. Quarterly reports are accurate and issued timely.	Satisfactory
4. Appropriate review and approval of daily analysis reports and investments.	Satisfactory
5. Broker/dealers meet the requirements indicated on the investment policy.	Satisfactory

SCOPE

The scope is October 2015 through March 2019.

METHODOLOGY

To achieve the audit objectives we:

- Reviewed the County Investment Policy to ensure accordance with *Texas Government Code § 2256.005*.
- Reviewed divisional policies and procedures to ensure proper controls are in place.



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- Reviewed latest training certificates acquired by the Investment Officer and staff involved in the investment process.
- Reviewed quarterly reports for accuracy, completeness, proper review and timely submission to Commissioners Court.
- Reviewed a sample of the daily analysis and investments reports for accuracy, completeness, timeliness, review, and approval.
- Reviewed broker/dealers compliance with Investment Policy requirements.

RESULTS

Listed below are control and finding summaries, with observations listed from highest to lowest risk. Please see the *Findings and Action Plans* section of this report for details and management action plan(s).

Control Summary	
Good Controls	Weak Controls
<ul style="list-style-type: none"> • Education training compliance (Obj. 2) • Timeliness and accuracy of Quarterly reports. (Obj. 3) • Review and approval of Daily analysis reports. (Obj. 4) • Approved brokers/dealers meet requirements. (Obj. 5) 	<ul style="list-style-type: none"> • Policies and procedures need to be updated (Obj. 1)
Finding Summary	
<ol style="list-style-type: none"> 1. Incomplete County Investment policy. 2. Documented divisional procedures do not reflect current procedures. 	

INHERENT LIMITATIONS

This financial review was designed to provide reasonable assurance that the internal control structure is adequate to safeguard County assets from loss, theft, or misuse. The County’s internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of implementing the controls should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires the use of estimates and judgment by management. Because of the inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected.

CONCLUSION

The internal control structure of the Investments were satisfactory for four of the five objectives of this audit. Implementation of the recommendations provided in this report should assist in strengthening the internal control structure.



Investment Audit



FINDINGS AND ACTION PLANS

Prior Audit Findings Summarized with Current Status

Status

- | | |
|------------------------------|---|
| Closed | 1. Finding: While comparing the Investment Pool quarterly reports, general fund was over \$102,000 and capital projects were short by the same amount. Furthermore, while reviewing the cash balance by fund, special revenue fund was over by \$51,341 and the agency fund was short for the same amount.
Recommendation: Balances should be corrected in order for each fund to reflect the right balance. |
| Closed | 2. Finding: While reviewing the October 31, 2012, Investment Pool Additions and Deletions by Fund worksheet, the total of the deposit was incorrect.
Recommendation: Due care should be performed when preparing the quarterly reports. Reports should be footed and cross footed before the quarterly report issued. |
| Closed | 3. Finding: While reviewing the transfer vouchers, FAMIS subsidiaries did not reflect accurate balances of funds invested in TexPool. Old subsidiaries that were used to record transactions made with the prior bank institution were not properly closed.
Recommendation: The subsidiary balances should be corrected in order to reflect accurate balances invested in TexPool. Furthermore, subsidiary balances should be reviewed on a regular basis. |
| Open
See finding 1 | 4. Finding: The investment policy does not include the methods to monitor the market price of investments acquired with public funds.
Recommendation: The methods to monitor the market price of investments should be included in the investment policy as required by Government Code §2256.005(b)(4)(D). |
| Closed | 5. Finding: It was previously recommended that a couple of employees needed to complete the training within a month from the date of the memo. Although most of the employees have complied with this measure, it was noted that not all staff involved in the investment process has a current training certificate on file.
Recommendation: Training should be completed as required. |

Current Audit Findings & Action Plans

Finding # 1		Risk Level H	
Incomplete Investment Policy – Methods to monitor the market price of investments and rate changes are not included on the investment policy as it is required by Government Code 2256.005(b)(4)(D) and (F). Repeat finding. Not having a method to monitor any changes the information obtained will be inconsistent and will not be reliable for projections and forecasting purposes.			
Recommendations			
Investment policy must include the methods to monitor the market price of investments and the procedures to monitor rating changes as required by law.			
Action Plan			
Person Responsible	Mr. James Utterback	Estimated Completion Date	March 31, 2020
Various methods of monitoring are used depending on the investment complexity. Currently investments are in investment pools which are less complicated, yet still require daily monitoring. As our portfolio diversifies, monitoring will become more complex. This information will be included on the next Investment policy update.			



Investment Audit



FINDINGS AND ACTION PLANS

Finding # 2		Risk Level M	
<p>Internal procedures – Documented procedures do not reflect current practices. Documented procedures state Cash Management Audit division determines the investable funds. However; Financial Analysis/ Reporting Audit division determines investable funds. Procedures serve as a guidance to County employees and establish the responsibilities of each of the staff involved in the investment process. Not having a clear guidance could confused the employees and they would not perform their duties.</p>			
Recommendation			
<p>Documented procedures should be updated to reflect the current procedures in the investment process for each appropriate division. Such procedures should be reviewed and updated on a periodic basis and whenever actual processes change.</p>			
Action Plan			
Person Responsible	Ms. Linda Hemme	Estimated Completion Date	October 31, 2019
<p>Documented procedures will be updated to reflect the current procedures.</p>			